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| Line 1: | List GROSS earnings (wages, salaries, commissions, etc.) regardless where received. Attach a copy of the withholding statements (W-2) from each employer. If you had no earnings, indicate the reason why (homemaker, disabled, unemployed etc.) |
| Line 2: | Business expenses for which an employee has NOT been reimbursed are allowed as a deduction from gross wages, provided such expenses are required by the employer in order for the taxpayer to keep his present job. (Refer to section on Unreimbursed Business Expenses.) <u>Business deductions must be taken with regard to each business SEPARATELY as a deduction from the business income thereof and CANNOT be consolidated in any form. Attach appropriate PA schedules.</u> |
| Line 3: | Line 1 minus line 2. |
| Line 4: | Other taxable Earned Income. |
| Line 5: | Self-explanatory (Add lines 3 and 4). |
| Line 6: | This line is to be used by all who are SELF-EMPLOYED. List Net Profits. Refer to section on Net Profits. |
| Line 7: | Allowable Business Loss. Losses may be applied only in the year in which the loss was actually incurred and may not be carried over to subsequent years. The Net Profit and Loss of each business must be SEPARATELY stated and Net Profit or Net Loss is to be determined SEPARATELY for each business enterprise. Attach appropriate PA Schedule(s). |
| Line 8: | Self-explanatory (Subtract line 7 from line 6). If less than zero, enter zero. |
| Line 9: | Self-explanatory (Add lines 5 and 8). |
| Line 10: | Tax Liability - Line 9 multiplied by tax rate of 1% (.01). |
| Line 11:
a,b,c,d | Complete if you have made quarterly payments, had tax withheld by your employer, prior credit or any miscellaneous credits. |
| Line 12: | Self-explanatory (Total of lines 11a, 11b, 11c, and 11d). |
| Line 13: | Self-explanatory. Refunds or credits of \$10.00 or more must be reported by us to the Internal Revenue Service. No refunds or credits under \$1.00. |
| Line 14: | Self-explanatory. Payment must be RECEIVED in this office ON or BEFORE the due date. There will be a \$25.00 fee for returned checks. Amounts less than \$1.00 need not be paid. |
| Line 15: | If paid after the due date, add penalty and interest at the rate of 1% per month. The late filing fee of \$10.00 will be charged for any form received after the due date. |
| Line 16: | Self-explanatory. |

WHAT IS INCLUDED IN EARNED INCOME

Examples of earned income (without intending in any way to limit the provisions of the Resolutions/Ordinances to these examples) are salaries, wages; commissions, bonuses; drawing accounts (if amounts received as a drawing account exceed the salary or commissions earned, the tax is payable on the amounts received. If the employee subsequently repays to the employer any amounts not in fact earned, the tax shall be adjusted accordingly); incentive payments; tips; fees; benefits accruing from employment, including, but not limited to annual leave, vacation, holiday, sickness and separation payments; National Guard pay (except active duty outside PA), 1-W classification pay; stipends paid to graduate assistants; or all other forms of compensation for an employee's services. Neither the kind nor rate of payment, nor the manner of employment exempts an employee from the tax. Compensation received in the form of property shall be taxed at its fair market value at the time of receipt.

WHAT IS INCLUDED IN NET PROFITS

Examples of "net profits" (without intending in any way to limit the provisions of the Resolutions/Ordinances to these examples) are: The net profits of a business or profession or of farm operations conducted by an individual or by a husband and wife, as computed according to the laws, regulations and procedure for computing PA Personal Income Tax "net profits" or "net farm profits" as required to be reported on PA Personal Income Tax portion thereof resulting from things not taxed by the Resolutions/Ordinances, (such as capital gains or interest); royalties received by authors, inventors, etc.; income from the operation of hotels, motels, trailer camps, tourist homes, boarding houses and other similar businesses; income from the business of renting of personal property; all other net profits of an enterprise, venture, or other activity, whether such activities are conducted within or outside the Taxing District. PLEASE NOTE - The net profit and loss of each business must be SEPARATELY stated and the net profit or net loss is to be determined SEPARATELY for each business enterprise.

WHAT IS CONSIDERED A NET LOSS

All allowable business losses must be reported on line 7.

Effective with tax year 2009, pursuant to PA Act 32, business losses cannot be used to offset wages/earned income. However, a loss from one business can be used to offset net profits from another business.

Please see examples below, which are taken from the "Frequently Asked Questions" section of the PA Governor's Center for Local Government Services webpage on Act 32:

- If a taxpayer has a \$40,000 net loss from a business selling garden supplies and \$20,000 of earned income from his job at the local grocery store, the business loss may not be used to offset his earnings and so taxes will be due on the full \$20,000 of earned income.
- If a taxpayer has a net loss of \$30,000 from a business selling garden supplies and a net profit of \$50,000 from a business selling used cars, and earned income of \$60,000 from his job as an accountant, the taxpayer's local income tax liability will be based on \$20,000 of net profits and \$60,000 of earned income because the taxpayer can offset one business loss against the second business profit.
- If a taxpayer has a net loss of \$50,000 from his garden supply business, a profit of \$30,000 from his used car business and income of \$60,000 from his job as an accountant, the taxpayer's local income tax liability will be based on \$60,000 of earned income. The loss from the first business may be used to offset the gain from the second but the net loss from the combined businesses cannot be used to offset earned income.

WHAT IS NOT SUBJECT TO THE TAX

The following are not considered to be earned income and are not subject to the tax: sickness, disability or retirement benefits paid (except regular wages); payments made under any public assistance or unemployment compensation legislation; compensation bonuses paid by a State or the United States for active military service in the Armed Forces, except National Guard and 1-W pay; death benefit payments to an employee's beneficiary or estate, whether payable in a lump sum or otherwise; proceeds of Life Insurance policies; cash or property received as a gift, by Will or statutes of descent and or distribution; interest and dividends; value of meals and lodging furnished to domestics or other employees by the employer for the latter's convenience; capital gains; social security benefits; damages for personal injuries; scholarships; profits from limited partnerships engaged in real estate, oil, gas, mining leases or other similar investments.

UNREIMBURSED BUSINESS EXPENSES

The fact that an expense is deductible for Federal tax purposes does NOT mean that it is an allowable business expense for Earned Income Tax purposes. To be an allowable business expense, the expense must be ordinary, actual, reasonable and necessary. Examples of deductible expenses include union dues, license fees, cost of small tools, uniforms and work clothing not suitable for everyday use. Examples (but not limited to) of expenses which may NOT be deducted are travel to and from work, costs of meals and lodging for salesmen and truck drivers, etc., unless the "away from home overnight" test as established by the Federal Government is met; dues to Chambers of Commerce or recreational club memberships, occupational privilege taxes; fines; penalties; office space and facilities unless required by employer; personal expenses such as medical contributions, interest, other taxes, educational expenses not required by taxpayer's employer to keep his present job and moving expenses not required by present employer, child care, etc; Self-Employment Retirement Plans, Individual Retirement Accounts (IRA) or Keough Plans. Failure to attach supporting documentation will result in the expense being denied.

THESE INSTRUCTIONS ARE ONLY A SUMMARY OF THE TAX BUREAU'S RULES AND REGULATIONS. COPIES OF THE RULES AND REGULATIONS ARE AVAILABLE, FREE OF CHARGE, AT THE CITY OF BETHLEHEM TAX OFFICE.